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E.O. 12958: N/A
TAGS: [ECON](#) [EAID](#) [EFIN](#) [EINV](#) [PGOV](#) [PREL](#) [EG](#)
SUBJECT: EGYPT: FOOD SUBSIDY REFORM UNLIKELY

REF: A. 08 CAIRO 587
[1](#)B. 08 CAIRO 2279
[1](#)C. 08 CAIRO 1863

Summary

[1](#)1. (U) Subsidy reform in Egypt is politically charged. Most attempts to change decades-old programs have been met with fierce public opposition and occasional demonstrations. The GOE has been largely unsuccessful at targeting subsidy programs, and repeated studies have shown that only a fraction of the amount spent on subsidies benefits the neediest of the poor. Fuel subsidies, which tend to benefit wealthier Egyptians, amount to over US\$11 billion a year (septel). Many of the reformers in the government of Egyptian Prime Minister Nazif have acknowledged the problem of a bloated subsidy budget, the negative impact on the GOE fiscal situation over the long term, and the economic distortions that subsidies have caused. They also admit that changes to programs that most Egyptians have grown to rely on for their basic needs will be difficult. The GOE has made some moves to make subsidy delivery more efficient, but at the same time it has actually expanded the base of subsidy recipients. In the past fiscal year, the direct cost of food subsidies alone was over US\$3 billion, and the indirect costs of the massive subsidy infrastructure, which employs hundreds of thousands of people, are unknown.

[1](#)2. (U) Egyptian President Hosni Mubarak has called for a public dialogue to improve the subsidy program, but there has been very little follow up. GOE officials are working on ways to eliminate some of the massive corruption and waste inherent in the current system, but none suggest that full scale reform is being seriously discussed. The global economic crisis has further rattled the GOE, making subsidy reform even more difficult and less likely in the near term. End Summary.

Food Subsidies 101

[1](#)3. (U) The GOE has two main programs to supply subsidized food to Egyptians: the subsidized bread program and the ration card program. The subsidized bread program provides loaves of flat "baladi" bread to the public at 5 piasters (slightly less than 1 US cent) per loaf. Bread is baked and distributed through a vast network of government millers, bakeries, and stores. The subsidized bread program is not targeted, and anyone can purchase the loaves. The price of "baladi" bread has remained unchanged for decades (though the government has occasionally changed the size of the loaves), and attempts to alter the bread program have been met with

fierce opposition and occasional violence, including the infamous 1977 "bread riots."

14. (SBU) In March 2008, a bread supply shortage prompted the GOE to call out the military to help bake and distribute bread. (reftel A). The subsidized bread program is notoriously corrupt and inefficient. Because the government is involved throughout the supply chain, there are ample opportunities for leakage from the system. Wheat and flour are stolen at a number of points in the chain and there is very little accountability. Worse still, there have been numerous reports of "baladi" bread being used to feed animals since it is cheaper than commercial feed. Officials from the Ministry of Social Solidarity (MOSS) have told us that they estimate 15-20% is lost in the supply chain--the real figure is probably much higher.

15. (SBU) Egypt is one of the highest per capita consumers of wheat and sugar in the world. According to the MOSS, the subsidized bread program uses nearly 10 million tons of wheat per year and there are more than 20 thousand "baladi" bread bakeries producing 220 million loaves of bread per day. In very remote villages, rather than bread, the GOE distributes flour for household baking, but there are no plans to distribute flour to consumers on a more widespread basis.

16. (U) The second food subsidy program, the ration card program, provides ration cards to low income Egyptian families. Under this program, families are entitled to buy a monthly quantity of food products (sugar, oil, tea, rice, etc.) at subsidized prices. The food is sold through government-owned outlets and the monthly allotment is adjusted according to family size. The ration card rolls were frozen in 1988, and from 1988 to 2005 no new names were added to the ration card list. Under pressure from the public, in 2008, the GOE added 23 million new names to the ration card eligibility list nearly doubling the rolls to 63 million people (80% of Egypt's population).

17. (U) The GOE has made other incremental changes to the ration card program in recent years. To streamline the system, an earlier attempt at partial subsidies was eliminated in 2007. That same year the GOE standardized the allotments to insure equal rations for urban and rural populations. In June 2008, in response to a surge in global commodity prices, the GOE put in place a supplemental subsidy program to increase the amount of subsidized food to which each family was entitled. In 2008, the GOE began a pilot to replace paper ration cards with smart cards. The new "family card" has been rolled out to nine governorates and has helped the GOE eliminate waste and fraud that accounted for 20% of its costs in those governorates (reftel B). The GOE plans to fully convert to the "family card" platform by the end of 2009.

While Economic Costs Are High...

18. (U) The food subsidy program is hugely expensive and cost the government LE 16.5 billion (US\$3.1 billion) in the 2007-2008 (July-June) fiscal year, nearly six percent of the national budget. The expansion of the ration card rolls in 2008, coupled with commodity price increases and potential economic slowdown have the potential to add to the fiscal pressure of the food subsidy program. At the same time, the global economic situation has made the GOE increasingly unlikely to tinker with the program. The GOE is also subject to global price increases, since it is a net importer of food and the largest importer of wheat in the world. Half of Egypt's wheat for subsidies is imported, and virtually all of the tea and cooking oil it provides is imported.

... Political Costs of Change Are Even Higher

19. (SBU) Hany Kadry, Deputy Minister of Finance, recently

told us there was little chance of subsidy reform while the country's inflation rate remains high (inflation has been running at an average of 20% over the past year). Kadry also said that there was large opposition to a move from an in-kind (direct provision of foodstuffs) to a cash transfer program. Nonetheless, the GOE goal remains moving to a cash transfer program which would be a much more efficient way to provide assistance to the poor. He told us that the supplemental food subsidy program put in place during the commodity price spike in May 2008 would be phased out by the end of calendar year 2008.

¶10. (SBU) In a December 22 meeting at the MOSS, three advisors to the Minister told us that Egyptian President Hosni Mubarak has publicly suggested a possible move to a cash transfer program and there is "an open dialogue with the public" to evaluate such an initiative, but there were no near term plans to move to a cash transfer program. (Note: We have seen no evidence of any dialogue or serious planning to replace the current ration regime. End note.) They did tell us that there were plans to introduce some market dynamics to the "baladi" bread supply chain. These plans would include selling wheat to millers and flour to bakers at market-based prices. The GOE would then purchase the bread and resell it at subsidized prices. These plans have not been announced publicly, and there is no timeline for these changes.

Comment: Real Reform Appears Remote

¶11. (SBU) The GOE subsidy program is a major drag on the fiscal budget. In total, subsidies (including energy, food and housing) account for 30% of total public spending. As we have reported (reftel C), spending on subsidies far exceeds spending on vital social services such as health and education. Officials from the Ministry of Finance have told us that the current level of food subsidies, while not optimal, is sustainable, and there appears to be no appetite to make difficult choices about reform. The GOE also finds itself in a perfect storm of negative sentiment regarding the domestic economy. The economy is approaching the tail end of an inflationary cycle that has seen some of the highest inflation rates in decades. The effects of the global economic slowdown have yet to be fully felt in Egypt, but the consensus among analysts is that revenues from exports, tourism, worker remittances, the energy sector, and the Suez canal will all be lower over the next several years, and foreign direct investment is likely to fall as well. Though policy makers in the GOE all acknowledge that subsidy reform is necessary and will eventually have to take place, attempts at serious reform have been halting at best--even in good economic times. The current macroeconomic environment makes an already difficult initiative nearly impossible for the government to sell to the public.
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